



**BUSINESS AND MANAGEMENT
CASE STUDY: LES MAISONNETTES**

For use in May and November 2009

INSTRUCTIONS TO CANDIDATES

- Case study booklet required for Higher Level Paper 1 and Standard Level Paper 1 Business and Management examinations.

LES MAISONNETTES

Les Maisonnnettes (literally: “the little houses”) is the name of Sophie Lagarde’s socially responsible business. It is located in southern France near Millau, in a semi-mountainous region which is becoming increasingly popular with both national and international tourists as a new motorway has been constructed, linking this region to Paris.

- 5 A regional airport is due to be completed in 2010 serving the low-cost UK airline, *Fly-Fare*.

History

- In 2001, Sophie’s parents ran a small grocery shop in St Germain. However, the construction of a new motorway led to a decrease in sales as passing trade dropped. Concerned about the lack of income, Sophie’s parents investigated possible new ventures to provide income for their retirement. After much searching they found a plot of land with a number of derelict barns,
10 15 minutes away from St Germain.

Sophie’s parents realised that running the village shop in St Germain and developing this new venture (*Les Maisonnnettes*) was not possible. After much deliberation they felt that Sophie, their daughter, would be better able to make it a success. Sophie was happy to take ownership of this venture.

- 15 After discussions with her local bank and Chamber of Commerce, Sophie took out a €300 000 loan, which will be fully repaid in spring 2026, to fund the venture. This loan enabled her to buy the plot of land and to convert each of the three barns into two cottages suitable for tourist accommodation. Each cottage is composed of two bedrooms. The original farmhouse was developed into a restaurant. All buildings have retained their traditional French style.
20 The local builders restored the buildings to a very high quality; guests always comment on the beautiful interior design. Photographs of the building have been used by the regional tourist board in a promotional brochure for the area.

Les Maisonnnettes was an instant success and for the first few years demand for its rooms grew. In 2004, Sophie converted the business from a sole trader to a private limited company.

- 25 In the summer months of 2005, the occupancy rate peaked at 100% (*Appendix 1*). In 2007, Sophie’s parents retired, leaving Sophie with responsibility for both the grocery shop and *Les Maisonnnettes*. She manages *Les Maisonnnettes* directly and lives on the premises. The shop, however, has been run by a succession of old school friends of Sophie. She is concerned about the lack of continuity and the high levels of staff turnover in the shop.
- 30 Originally, *Les Maisonnnettes* was just a “bed & breakfast” (B&B) operation. However, since 2003, the restaurant now offers lunch and dinner for the guests and the general public. The restaurant business is increasingly important (*Appendix 2*) and Sophie has thought of developing a joint venture with a local winery. In 2005, *Les Maisonnnettes* won a number of regional awards for the quality of their food. In 2007, the French Tourist Board rated rural accommodation providers,
35 and *Les Maisonnnettes* scored very highly.

Marketing

Many Europeans, increasingly aware of the socio-cultural and environmental impacts of traditional tourism, are attracted to the idea of eco-tourism. This is because of its two main characteristics; firstly, it is designed to benefit local communities, secondly, it is based on activities that cause less damage to the local environment. In practice, eco-tourism is a relatively small niche market, but is growing rapidly.

Les Maisonnettes was an early adopter of eco-tourism. Sophie is an active member of the *Association Française d'Ecotourisme (AFE)*, which is a non-governmental organization (NGO) dedicated to promoting sustainable tourism practices in France. Its mission is to “assist tourist operators to become environmentally sustainable, economically viable and socially responsible”. In keeping with this mission, *Les Maisonnettes* only sources local products. Sophie cooperates with local businesses, discusses all her projects with the community and encourages activities that have a minimal environmental impact (hiking, horse riding, canoeing, fishing).

As a member of the Regional Tourist Board, *Logis de France** and *AFE*, *Les Maisonnettes* is listed in their brochures and on their websites. Sophie regards this online presence as important, especially as she does not have her own website. To be included in the *Logis de France* website, Sophie has to provide annual evidence of the quality standards of her business. Inspectors visiting the premises in 2007 awarded *Les Maisonnettes* a rating of two “fireplaces”. This rating is based on a checklist of more than 200 quality criteria and represents “a high level of comfort and tasty cuisine for the price”. Sophie is allowed to display the two “fireplaces” on all promotional materials. Receipt of the rating for quality prompted Sophie to consider positioning the name *Les Maisonnettes* as a socially responsible brand, as opposed to just the name of the premises.

Sophie relies on word-of-mouth promotion. A significant proportion of guests are either returning customers or new customers who have received a positive recommendation. From customer questionnaires, a stay at *Les Maisonnettes* is perceived as good value. Published surveys reveal that eco-tourists are more likely to be middle aged and have an above average income. Even though people aged between 18 and 30 endorse the ideals of eco-tourism, few visitors to *Les Maisonnettes* are in this age group.

Sophie charges the same amount throughout the year (€100 per cottage per night). She is considering charging higher prices in peak season and offering discounts for returning visitors. She knows that she may also need to adapt her overall marketing approach: she tends to market *Les Maisonnettes* as a product, but tourism and eco-tourism are better described as services.

* *Logis de France*: an independent chain of accommodation providers; their label (represented through ratings of one, two or three fireplaces) is a sign of high quality service, authenticity and the use of local specialities

Competition

There is a surplus of holiday accommodation in the region. B&B and timeshares have been opening on a regular basis and Sophie is aware that she may have to lower her prices to maintain current occupancy rates. A local councillor recently told Sophie that this trend will further increase in the next few years.

The global leisure company, *Sanctuary*, has recently opened a modern, self-contained holiday centre 30 minutes away from *Les Maisonnettes*. A key factor in the decision-making process for *Sanctuary* was the availability of cheap land. This facility offers activities for all ages, such as horse riding with qualified instructors, spas, health clubs, nightclubs, a sports bar and several restaurants. From 2010, holidaymakers using the low-cost airline, *Fly-Fare*, will receive a 10 per cent discount on a *Sanctuary* holiday. *Sanctuary's* target market is the cost-conscious family group looking for an all-inclusive activity-based holiday. *Sanctuary's* success has been based on a standardized model operating worldwide. Unit costs are kept low due to economies of scale and their use of cheap imported produce. Employees are not paid well but enjoy a number of fringe benefits, such as free use of the facilities. However, there have been some customer complaints about the standard of service.

At the moment there is little, other than Sophie's emphasis on eco-tourism, that differentiates *Les Maisonnettes* from other B&Bs. Faced with increasing competition, *Les Maisonnettes* is finding it harder to attract new customers. Over the last two summers, Sophie has introduced activities to add value to a stay at *Les Maisonnettes*. In 2006, her programme of outdoor activities proved quite popular, earning an average of €100 per person per week. However, the biggest success is the traditional French cooking class, with her mother Marie as the chef. In 2007, the classes generated an average of €400 per person per week in revenue. These activities represent now a growing source of income for *Les Maisonnettes* (*Appendix 2*) but she has had to take out an additional five-year bank loan of €15 000 for equipment and start-up costs. Sophie has thought about developing holiday packages combining weekly stays with traditional French cooking workshops, but she has not prepared any business plan or budget for this yet.

Human resource management

Sophie's retired parents help almost every day, her mother with food preparation and her father Guy with the accounting and general maintenance. Sophie also has several part-time and two full-time employees all from the local community, a number of whom are long-term family friends. Given the loyalty to her friends, Sophie has tried to adopt a paternalistic leadership style.

In general, Sophie believes *Les Maisonnettes* is well managed but there are concerns about staff absences and poor punctuality. On these occasions, Sophie needs to cover the duties of the absent employee, taking her away from her core responsibilities. As the reputation of *Les Maisonnettes* depends on customers' satisfaction and on word-of-mouth, Sophie is very anxious about these staffing issues. She is also worried because *Sanctuary* is looking to recruit additional part-time staff for its holiday complex, which may lead to local labour shortages.

105 Sophie is aware of the need to manage her human resources more professionally and consistently because she is preparing the business for growth. Using the *AFE* website, she could recruit a small number of core staff with similar eco-tourism values, offering this group long-term career pathways and an enhanced pay structure with pay increases linked to length in post (loyalty bonus). The problem of hiring part-time summer staff might be solved by offering accommodation on-site to international students looking for work experience before university.

110 Sophie believes that the combination of total immersion in French culture, the subsequent development of language skills for non-native speakers and greater understanding of the concepts and ideals of eco-tourism will compensate for the relatively low starting salary and may prevent employees leaving to work for other local employers such as *Sanctuary*.

External environment

115 New EU legislation on health and safety requires improved training and facilities in the tertiary sector, which will have a significant cost implication for *Les Maisonnettes*. For example, two years ago a minor horse riding accident occurred. A similar event today could result in a potentially expensive claim for damages as the instructors are not adequately qualified according to the new legislation. The legislation also covers improved hygiene in food preparation areas, requiring staff to be adequately trained and equipment updated. Sophie is aware that not all of

120 her staff are suitably trained and therefore *Les Maisonnettes* is not compliant with the new rules.

Les Maisonnettes faces numerous other changes in the external environment. After years of rising prices, driven mostly by British expatriates buying second homes in the region, housing prices are starting to flatten and predictions are they will fall. Rather than sell their properties, more owners are looking to rent out their houses, causing increasing competition

125 and falling holiday rents. Throughout France, demographic change has resulted in fewer younger employees. In rural areas, low wages have made the problem even worse, increasing the number of young people moving to urban centres, such as Lyon.

Changes in technology and e-commerce have combined to provide more opportunities for independent travellers booking holidays using websites. In order to respond to this trend,

130 Sophie knows she must react by setting up a business website with online booking facilities. Published reports suggest that her target market is increasingly likely to book online. Sophie is also aware of the power of the Internet to help develop links with other eco-tourist providers. The Internet can offer a forum to strengthen the ideals of the eco-tourism movement and also to raise awareness of *Les Maisonnettes*.

135 A recent independent survey reported that eco-tourism still forms a tiny minority of all holidays but predicts a 25 per cent annual growth rate in this sector. Four out of five tourists claim that ethical issues played some role in their holiday decision. This offers a very good opportunity to attract more tourists to *Les Maisonnettes* and Sophie's future vision is to make eco-tourism the core focus for this business. Some initial primary research by Sophie has discovered that there

140 might be a potential unique selling point (USP) in providing an eco-tourist package which allows customers to offset their "carbon footprint".

The development of the new motorway and airport, operating low cost routes to England, has led to an improvement of the local infrastructure. Sophie, despite her eco-friendly beliefs, sees this as much as an opportunity as a threat to her business.

- 145 Over the last decade, the weather has changed noticeably: winters are milder, without any snow, and summers can get dangerously hot, resulting in droughts and the danger of forest fires. Insurance premiums have risen dramatically. The intense heat wave that hit southern Europe in 2003 caused Sophie a substantial loss of revenue, as many customers cancelled their bookings and changed their travel plans.

Finance

- 150 From inception *Les Maisonnettes* has been profitable but there is a downward pressure on profit margins (*Appendix 3*). The balance sheet highlights a number of concerns (*Appendix 4*). Sophie knows she could nonetheless apply for a substantial capital loan from her bank with a preferential interest rate.

Future developments

- 155 Sophie is pleased with the current success of her small business; however, she is concerned about its future direction and potential market share. After consultation with her parents, her bank manager and her employees, she has identified four possible options.

Option 1

- In response to challenges of the external environment, retain the present focus of the business but improve business operations and profitability. This will involve improving cost control, marketing the business more effectively and creating a more flexible workforce. This option is favoured by her parents; they depend on the success of the business for their retirement and they believe eco-tourism to be a passing fashion.
- 160

Option 2

- To demonstrate her commitment to the eco-tourism movement, develop an education centre to promote the ideals of sustainable tourism and fulfill the objectives of the *AFE*:
- to favour the adoption of sustainable practices within the tourism industry
 - to contribute to conservation solutions and local projects
 - to market French eco-tourism operations to domestic and international travellers.
- 165

The existing accommodation will be modified to be energy efficient and carbon neutral. All outdoor activities will be cut, one barn will be converted to provide an education centre and restaurant operations will be restricted to guests at *Les Maisonnettes*.

Option 3

- 170 Reposition *Les Maisonnettes* as a luxurious eco-tourist retreat. This will involve developing a new USP to differentiate itself from local competition, particularly the *Sanctuary* complex. The key principles of eco-tourism will remain, but the retreat will be targeted at a higher income market segment than currently. High quality locally sourced produce will be offered, including wines, organic vegetables, meats, fish and poultry. Clients will be offered a range of
- 175 services, such as beauty treatments, saunas, meditation and yoga classes. Substantial investment will be required to upgrade and expand existing facilities and recruit and train new staff. This will significantly increase the gearing of the business.

Option 4

- 180 Sell the whole business to a timeshare operator who will redevelop the premises. The proceeds of the sale can be split between providing financial security for her parents' retirement and renovating the shop. Sophie will focus her energies on the shop, selling local produce such as cheeses and wines. Although this is the lowest risk option, this is Sophie's least preferred option as she would lose control and ownership of *Les Maisonnettes*.

Additional terms not in the Guide

Niche market

Paternalistic management style

Appendix 1

Monthly occupancy rates at *Les Maisonnettes* for 2002, 2005 and 2008

	2002	2005	2008
January	N/A	10%	10%
February	N/A	10%	10%
March	N/A	30%	30%
April	N/A	70%	55%
May	25%	70%	65%
June	25%	100%	75%
July	60%	100%	92%
August	60%	100%	92%
September	40%	80%	75%
October	20%	40%	35%
November	10%	10%	10%
December	10%	10%	10%

Appendix 2

Breakdown of strand income for 2002, 2005 and 2008

	2002	2005	2008
Accommodation (B&B)	100%	70%	60%
Catering (lunch, dinner, snacks)	0	30%	25%
Activities (guided tours, workshops)	0	0	15%
Total	100%	100%	100%

Appendix 3

Profit and loss account for *Les Maisonnettes* for the years ended 31 May 2005 and 2008

(Calculated in Euro, rounded up)

	2005	2008
Sales revenue	190 000	183 330
Cost of goods sold	11 340	14 000
Gross profit	178 660	169 330
Expenses	100 000	108 060
Non-operating income	0	0
Net profit before interest and tax	78 660	61 270
Interest	10 000	12 050
Tax	7 770	6 130
Net profit after interest and tax	60 890	43 090
Dividends	0	0
Retained profit	60 890	43 090

Appendix 4

Balance sheet for *Les Maisonnettes* as at 31 May 2005

(Calculated in Euro, rounded up)

Fixed assets		600 000
Current assets		
Stock	2000	
Debtors	1000	
Cash	4000	
Total		7000
Current liabilities		
Creditors	4000	
Short-term borrowing	0	
Total		4000
Net assets		603 000
Share capital		200 000
Loan capital		260 000
Retained profit		143 000
Capital employed		603 000

Balance sheet for *Les Maisonnettes* as at 31 May 2008

(Calculated in Euro, rounded up)

Fixed assets		618 000
Current assets		
Stock	6000	
Debtors	2000	
Cash	2000	
Total		10 000
Current liabilities		
Creditors	3000	
Short-term borrowing	15 000	
Total		18 000
Net assets		610 000
Share capital		200 000
Loan capital		210 000
Retained profit		200 000
Capital employed		610 000

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.
